

# Ameren Utilities' View on Implementing of the Governor's Sustainable Energy Plan

## RPS Working Group

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### Governor's RPS Proposal

- Applicable to Utilities and ARES
- 2% of energy sales in 2006, increasing 1% annually until, in 2012, 8% is generated by renewable resources
- 75% of renewables to come from wind
- For Ameren's Illinois Control Area, the Plan would require wind renewables of 225 MW in 2006, growing to 950 MW in 2012
- Ameren Utilities presented their initial views at the March 16<sup>th</sup> workshop

### Implementing the Governor's Plan

- The Governor's Plan challenges both Utilities and ARES to enter into RPS contracts for retail loads
  - Load uncertainty (switching) faced by Utility and ARES may require a shorter term focus for RPS contracting
  - We are told that wind developers need long term contracts to secure favorable financing, leading to lower-cost renewable power

### Implementing Governor's Plan (Cont'd)

- Limiting resources to only those produced in Illinois limits use of potentially superior RPS resources produced from other nearby states once the best Illinois sites are developed
  - The earliest renewable resources could be under contract is late 2006
  - The Ameren Utilities do not believe any penalty provisions are needed to achieve the desired goals
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- Combining RPS within the Post-06 Auction Process may not be the

## Optimal Approach, Leading to Higher RPS Costs

- Increments of a % of each tranche may be too small for a supplier to economically procure
- Each supplier's contract would expire each 1 to 3 years, limiting opportunity for suppliers to enter into RPS contract terms longer than 3 years
- Difficult to monitor RPS compliance across dozens of tranches and suppliers
- Market for RPS Energy Certificates not developed

## Our Preferred RPS Structure

- Utilities become Responsible for All Procurement of Renewables in Illinois
  - Allows for longer term contracts with developers, which will minimize overall RPS cost to customers
    - Buying in bulk may result in lower cost
    - Should aid developers in obtaining lower financing costs for projects
  - Utility would base "RPS Requirements" on Delivery Services (DS) load
    - Reduces risk of load uncertainty since ALL customers will take DS
    - Easier to monitor compliance with RPS goal
  - All RPS costs recovered in charges applicable to all DS Customers, not effecting competition

## How Would Utilities Manage RPS Under Ameren's Method?

- Utilities not required to take physical delivery of RPS energy
  - Utilities receive "Energy Certificates" verifying RPS energy is generated per their contract
  - The Energy Certificates are retired to achieve RPS goals
  - Producer sells generated energy into LMP market
  - Some physical arrangements still possible
- Utility contracts for RPS on basis of difference between "market price" and RPS "contract price"
  - Contract is financial to Utility
  - Pricing for Renewable Power is set at time of contract

## The Supply Contract

- Utility enters into financial contract for RPS Energy Certificates
  - The value for generated energy is fixed at time of contract
  - Set at a specific price per kWh for each renewable certificate generated
- The actual net price paid by Utility customers will vary based on the following:
  - Developer and utility settle on a "formula" that computes the difference between:
    - 1) a Fixed RPS unit energy price; and
    - 2) the LMP revenue received by Developer/Producer.
  - During periods of high LMP, Utility could receive a credit (where LMP exceeds the price of renewables)
- This approach provides a real RPS price hedge for both Utility customers and for ARES customers

## How Would The Ameren Utilities Proposed Structure

## Be Implemented

- Utilities file tariff with ICC that:
  - Defines the competitive procurement process for RPS
  - Provides a pre-approval procedure for ICC acceptance of winning bids
  - Establishes a DS rider mechanism for recovery of RPS costs

## Ameren Utilities' RPS Structure

- The Advantages
  - The Utility and others can easily monitor RPS progress
  - The purchase of RPS energy does not alter the Post-06 declining clock auction process
  - The project Developers have certainty of long-term contracts
  - State Energy Policy is implemented efficiently and customers have a financial RPS hedge
  - ARES are not involved in meeting an RPS Goal

## Benefits of Proposed Structure

- Regulatory Oversight Enhanced
  - RPS Compliance Monitoring is simplified
  - Keeps regulatory oversight of renewable energy with the Utilities that ICC currently regulates
- Competitive Market Development
  - Allows ARES to freely compete for customers and load using all available energy resources
  - All customers participate in "renewables" equally
  - More favorable to competition
  - This method does not impact bidding or supply strategies of Auction suppliers

## Benefits of Proposed Structure (Cont.)

- Developer and Environmentalist Perspective
  - Longer term contracts will result in more favorable costs for Renewables
  - Our Plan results in more certainty for Renewables project development
    - Utility being responsible for all RPS contracting provides funding certainty, increasing likelihood of favorable financing
  - Renewable energy will reduce reliance on traditional generation in region

## Benefits of Proposed Structure (Cont.)

- Customer Perspective
  - ICC monitors overall cost of renewables program
    - If renewables exceed a reasonable cost as established by ICC, they can reject bids and customers avoid that cost
  - The charges for RPS will be reviewed by the ICC for accuracy

- All customers have a financial hedge against traditional generation through RPS

## Consumer Protections

- RPS energy would be procured in a competitive process, with prices approved by the ICC
- RPS cost recovery in DS rates will be subject to review by ICC to be certain that RPS costs are accurately recovered in rates
  - DS rates will include a reconciliation formula to synchronize DS charges with RPS costs
- ICC will monitor RPS compliance

## Conclusion

- Ameren Utilities' have spent considerable time refining their position on RPS
- We are now seeking feedback on this proposed structure
  - A constructive dialogue must take place
- Ameren Utilities are committed to pursuing a balanced RPS strategy that is fair to our customers and to our investors